IDAHO OUTLOOK

NEWS OF IDAHO'S ECONOMY AND BUDGET

STATE OF IDAHO DIVISION OF FINANCIAL MANAGEMENT DECEMBER 2005 VOLUME XXVIII NO. 6

Economists are rarely at a loss for words. However, Idaho's recent economic performance has the Division of Financial Management's (DFM) dismal scientists perusing their thesauruses for superlatives to aptly describe the Gem State's astounding performance. Perhaps, instead of depending on Mr. Roget for the perfect words, we should look to someone else for inspiration. In this *Outlook* we turn to the Chairman of the Board for help. Not Lee Iacocca or Jack Welch, but Frank Sinatra. For we believe it was the Hoboken crooner who best described the state's performance when he sang, "it was a very good year."

Like Ole Blue Eyes affect on bobbysoxers, Idaho's recent performance has left many economists swooning. This is because the Gem State's economy has grown beyond almost everyone's expectations. For example, last January DFM predicted Idaho's economy would post a respectable showing in 2005. This year-ago projection showed Idaho nonfarm employment would advance by nearly 9,600 jobs (1.6%) from 2004 to 2005. While this was lower then the previous year's growth of 2.4%, it was a clear improvement over 2002-2003 period when just 4,000 jobs were added. The same forecast also showed Idaho nominal personal income would advance 5.1% in 2005 and Idaho real personal income would increase 3.2%. Idaho housing starts, which soared to a lofty 18,100 units in 2004, was expected to make an orderly decent to 17,600 units in 2005. Idaho's population was anticipated to increase 1.5%, the same as in the previous year.

A year later we have data that suggest that the economy was stronger than the fabled ant that picked up all those rubber tree plants. And we have adjusted our estimates for 2005 upwards. One of the biggest revisions was Idaho nonfarm employment. With three quarters of historical data available, we now believe employment increased 3.7%—more than two percentage points faster than we had forecast last year—to 610,000 jobs. The construction sector had a hand in this revision. Early last year we predicted construction employment would begin a slow decent. We were wrong. Instead, the number of Idaho construction jobs grew an amazing 11.4%, which was even faster than 2004's 8.4% hectic pace. The reason the construction sector did so well was because Idaho housing starts grew much stronger than we had anticipated at the beginning of 2005. Specifically, our previous outlook called for Idaho housing starts to peak near 18,100 units in 2004 then fall to 17,600 units in 2005. The current forecast calls for Idaho housing starts to rise to 23,100 in 2005. There are several reasons for this improved housing outlook. First, mortgage interest rates did not rise as fast as had been projected in the beginning of 2005. Second, Idaho's population increased faster than had been anticipated, 2.4% versus 1.5%. Third, Idaho real personal income grew an estimated 4.3% in 2005 compared to the original forecast of 3.2%.

We have also raised the forecast for the years after 2005. For example, Idaho nonfarm employment should grow an average of 2.1% per year compared to the previous year's estimate of 1.7%. There are two main reasons for the improved outlook. The first is obvious. Idaho's strong economic performance in 2005 has raised the starting point for the forecast period. Second, the stronger outlook for the national economy boosts Idaho's economy. As a result, we predict there will be just below 649,000 nonfarm jobs in Idaho in 2008 and real personal income will be $40.8 billion. In the previous forecast there are 628,100 jobs in 2008 and Idaho real personal income is $39.2 billion.

The staff of the Division of Financial Management wishes everyone happy holidays and much prosperity!

DIRK KEMPTHORNE, Governor

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General Fund Update

As of November 30, 2005

Revenue Source	$ Millions		
	FY06 Executive Estimate[3]	DFM Predicted to Date	Actual Accrued to Date
Individual Income tax	1,089.9	384.2	397.1
Corporate Income tax	155.8	41.9	51.4
Sales Tax	827.8	375.8	391.0
Product Taxes[1]	23.1	10.0	10.2
Miscellaneous	107.1	32.2	32.1
TOTAL GENERAL FUND[2]	**2,203.7**	**844.1**	**881.8**

1 Product Taxes include beer, wine, liquor, tobacco and cigarette taxes
2 May not total due to rounding
3 Revised Estimate as of August 2005

General Fund revenue turned in the fifth consecutive above-target performance in November. Although the month's excess of $4.6 million is the smallest gain so far in FY 2006, it brings the cumulative excess for the fiscal year to date to a very healthy level of $37.7 million. November's gain was dominated by the corporate income tax. The other four major revenue categories all came in quite close to expectations for the month.

Individual income tax revenue was $0.3 million lower than expected in November, and now stands $12.9 million above the predicted amount for the first five months of this fiscal year. November's weakness was due to withholding collections that were $1.1 million lower than expected for the month, and now stand $2.0 million lower than expected for the fiscal year to date. This weakness was partially offset by filing collections that were $0.7 million higher than expected for the month, and are $15.3 million higher than expected for the fiscal year to date.

Corporate income tax revenue was $3.7 million higher than expected in November, bringing the year-to-date excess to $9.5 million. The bulk of the month's gain was due to refunds being $3.2 million lower than expected, but quarterly estimated payments were also $0.7 million lower than expected for the month. On a year-to-date basis filing payments are $2.2 million lower than expected, estimated payments are $1.6 million higher than expected, and refunds are $8.6 million lower than expected.

Sales tax revenue was $0.9 million higher than expected in November, making this the fifth straight month of higher-than-predicted sales tax collections. The year-to-date excess is now $15.2 million, but $14.0 million of this excess is the result of the remarkable strength that occurred in July through September. We've now seen two consecutive months of sales tax revenue much closer to the predicted values.

Product taxes were on target in November, but the year-to-date excess grew to $0.3 million – this is the result of rounding. Miscellaneous revenue was $0.3 million higher than expected for the month due to a combination of larger-than-expected unclaimed property collections ($0.8 million) offset by modest weakness in the insurance premium tax (-$0.1 million) and interest earnings (-$0.5 million).